



## Financial Horizons

Fall 2005

### Letter from ASRS Director Paul Matson

Across the nation, pension plans have become a prominent issue in the news media, and so I wanted to take this opportunity to address retirement plans in general, and the ASRS plan in particular.



As you may have read, a number of plans in both the private and public sector are experiencing significant financial hardships.

You, however participate in a plan that is financially sound, a plan that is managed wisely, invested appropriately and administered judiciously to provide you a secure future of uninterrupted monthly pension payments.

For more than a half-century, the ASRS has provided a retirement program that public servants have come to rely upon when they retire.

Today, more than 75,000 retirees are receiving a monthly benefit. Each month, the ASRS pays out more than \$110 million in benefits directly to our retirees.

For members still hard at work and contributing into the ASRS defined benefit plan, you may be concerned as to whether your full benefit will be there when you retire.

*Continued on Page 6*

### ASRS Awarded Certificate of Excellence for Annual Report

The Arizona State Retirement System was recently awarded a Certificate of Achievement for Excellence in Financial Reporting for its 2004 Comprehensive Annual Financial Report.

The award, presented by the Government Finance Officers Association of the United States and Canada, recognizes "achievement in the highest standards" for government accounting and financial reporting. It is the 16<sup>th</sup> consecutive year the ASRS has received this prestigious award.

The 2004 Comprehensive Annual Financial Report covers fiscal year 2003-04 and is available on the ASRS website, [www.asrs.state.az.us](http://www.asrs.state.az.us). The 123-page report contains information on the retirement system organization and demographics, plus details on ASRS investments, finances and actuarial methodology.

The GFOA is the professional association of state/provincial and local finance officers in the United States and Canada, serving the public finance profession since 1906.

"This award represents the highest standards of financial accounting and serves to confer confidence to our members that their retirement fund is soundly managed," ASRS Director Paul Matson said.



Pictured (from left to right) are ASRS Comptroller Leslie De'Reche; Nancy Linssen, Assistant Director for Financial Services; ASRS Director Paul Matson; ASRS Board Trustee Michael Townsend; and Anthony Guarino, Deputy Director and Chief Operations Officer for the ASRS.

### *Director Outreach Meeting*

ASRS Director Paul Matson will be in Tucson on Wednesday, November 9 to host an informal Director Outreach meeting.

This is the fourth such meeting in a series that has taken Mr. Matson to various parts of the state to hear from members and retirees.

The Tucson meeting will take place at the ASRS Tucson office, 7660 E. Broadway Blvd., suite 108 at 11:30 a.m. No reservation is required; just stop by if you'd like to visit! Information: (602) 240-2016.

### INSIDE THIS ISSUE:

Service Purchase Program News	2
Member Services Meetings Schedule	3
Contribution Rate Update	4
Health Insurance Open Enrollment	6
Investment News	7

# Benefit News

## Service Purchase Program

If you are an active, contributing member of the Arizona State Retirement System or are receiving a Long Term Disability benefit through the ASRS, you are entitled to purchase certain types of credited service to be applied toward your retirement benefit. Types of service that may be purchased are: previously forfeited ASRS credited service; unpaid ASRS leaves of absence; military service, including National Guard and active military reserve time, and other public service employment, whether or not you participated in a retirement system while working.

Adding credited service to your record is one way of increasing your benefit at the time of retirement. It can also help you reach retirement eligibility earlier than you might otherwise.

The ASRS uses the Actuarial Present Value (APV) method to determine the cost of purchasing your service. APV is defined as the value of a benefit in terms of the amount of money the ASRS must have on hand today to pay for the benefit in the future.

In applying this calculation method the ASRS determines the APV of the member's benefit including the purchased service, and the APV excluding the purchased service. The member pays the difference between these two values, thereby fully funding the additional benefit they derive from the service purchase.

Factors used in the calculation include the member's age, annual compensation, years of service, and years of service requested to purchase. As a result, the cost of service purchase varies for each member.

Members are limited to a single active Service Purchase request for each of the categories of purchase at a time. This change, which became effective January 4, 2005, ensures that the correct number of years of service is factored into the cost formula at the time of purchase.

There are a number of ways to pay for your Service Purchase, including lump-sum payments, rollovers from other qualified retirement plans, or through a Payroll Deduction Agreement (PDA). A PDA is a contract that may be set up between a member and their employer for the purpose of making payments toward Service Purchase. The ASRS now charges interest on all PDAs with a Service Purchase request date made on or after July 1, 2004. The interest rate is set at 8 percent, the same as the ASRS assumed earnings rate.

To learn more about Service Purchase and Payroll Deduction Agreements, please see the Service Purchase Fact Sheet on our website, where you'll also find a Service Purchase Calculator to help you see how the benefit might help you. Members may also call our Member Services Center at (602) 240-2000 in metro Phoenix, (520) 239-3100 in metro Tucson, or toll-free at 1 (800) 621-3778 outside metro Phoenix and Tucson.

### **\*\* Official Notice \*\***

#### **Military Service Purchase Recalculation**

Legislation passed in the 2003 Legislative session requires the Arizona State Retirement System to recalculate the cost of military service purchased prior to July 20, 1996 by members – active, retired or deceased – and to provide refunds, plus interest in certain cases. The refunds are based on the difference in the costs of purchasing service prior to July 20, 1996, and the cost of service purchase after that date.

If you purchased military service prior to July 20, 1996, you may be entitled to a refund. If you have questions or need more information, please call the ASRS Member Services Center at (602) 240-2000 in Phoenix, (520) 239-3100 in Tucson, and outside the metro areas at 1 (800) 621-3778.

# Education News

The Member Services Division of the ASRS conducts educational meetings available to all members. Whether you're newly hired and want to learn about the benefits available to you, or you're ready to retire and want assistance filling out your paperwork and making annuity selections, the ASRS has a meeting for you.

**Group Meetings** are designed for members within one year of retiring. You'll learn about potential monthly benefits and options, completing retirement paperwork, health insurance, and return-to-work options.

**Seminars** are open to all members. You'll learn about the ASRS, benefits as an active, inactive and retired member, member responsibilities, retirement benefit calculations, wills and trusts and Social Security benefits.

**Service Purchase Meetings** are open to all members. Here you'll learn about the Service Purchase Program, the process for purchasing service, types of service available for purchase, cost calculations, and payment options.

Meetings are regularly held at our Phoenix and Tucson offices. In addition, Member Services representatives will be traveling throughout the state to host meetings. See our Fall Travel Schedule below. For Phoenix and Tucson meetings, please visit our website and click on the Calendar section to see a listing.

Reservations are required and can easily be made by calling our offices at (602) 240-2000 in Phoenix, (520) 239-3100 in Tucson, or 1(800) 621-3778 outside Phoenix and Tucson.

## Fall Travel Calendar

### Group Meetings

Prescott – Sept. 13, 9 a.m.  
Prescott – Sept. 14, 9 a.m.  
Camp Verde – Sept. 14, 4 p.m.  
Tuba City – Sept. 20, 9 a.m.  
Kayenta – Sept. 22, 4 p.m.  
Chinle – Sept. 27, 9 a.m.  
Ganado – Sept. 28, 9 a.m.  
Window Rock – Sept. 29, 9 a.m.  
Casa Grande – Oct. 31, 4 p.m.  
Casa Grande – Nov. 1, 9 a.m.  
Florence – Nov. 2, 9 a.m.  
Globe – Nov. 3, 9 a.m.  
Yuma – Nov. 7, 4 p.m.  
Yuma – Nov. 8, 9 a.m.  
Yuma – Nov. 9, 9 a.m.

### Seminars

Prescott – Sept. 13, 1 p.m.  
Tuba City – Sept. 20, 1 p.m.  
Page – Sept. 21, 4 p.m.  
Kayenta – Sept. 23, 9 a.m.  
Chinle – Sept. 27, 1 p.m.  
Ganado – Sept. 28, 1 p.m.  
Window Rock – Sept. 29, 1 p.m.  
Casa Grande – Nov. 1, 1 p.m.  
Florence – Nov. 2, 1 p.m.  
Yuma – Nov. 8, 1 p.m.

### Service Purchase

Prescott – Sept. 13, 3:30 p.m.  
Tuba City – Sept. 20, 3:30 p.m.  
Page – Sept. 21, 6:30 p.m.  
Kayenta – Sept. 23, 11:30 a.m.  
Chinle – Sept. 27, 3:30 p.m.  
Ganado – Sept. 28, 3:30 p.m.  
Window Rock – Sept. 29, 3:30 p.m.  
Casa Grande – Nov. 1, 3:30 p.m.  
Florence – Nov. 2, 3:30 p.m.  
Yuma – Nov. 8, 3:30 p.m.

ASRS Group Meetings, Seminars and Service Purchase Meetings  
schedules & locations can be found on our website at  
[www.asrs.state.az.us](http://www.asrs.state.az.us)  
Click on "Calendar."

# CONTRIBUTION RATES

A new contribution rate for the ASRS defined benefit plan went into effect on July 2, 2005. The new rate was set forth in Senate Bill 1521, passed by the Arizona Legislature last session. It called for a rate of 6.9 percent for the ASRS pension plan, plus 0.50 percent for the long-term disability plan, for a total contribution rate of 7.40 percent. This rate applies to both members and employers and is effective through June 30, 2006.

The contribution rate is scheduled to increase for the 2006-07 fiscal year. On July 1, 2006, the rate is currently scheduled to be set at 8.6 percent for the pension plan, plus 0.50 percent for long-term disability, for a total contribution rate of 9.10 percent for both employee and employer.

The ASRS actuary previously calculated a rate of 8.25 percent for employee and employer contributions for both fiscal 2005-06 and 2006-07. The legislature, at the request of some employer representatives, explored methods to soften the increased contribution rate for the coming fiscal year to provide additional time for employees and employers to plan their budgets, while still maintaining fiscal soundness for the pension plan. As a result, the legislation called for "stepping in" the two-year actuarially-determined rate with a lower rate the first year, and a higher rate the second year.

Members and employers have seen the contribution rate increasing over the past few years. There are several factors at play that are driving up the rate. Chief among them are increased benefits. Over the past decade, a number of benefit enhancements were put into place and were generally paid with excess earnings from the ASRS Fund. Increases to minimum retirement benefits, enhanced refund options, a graded multiplier that rewards workforce longevity, and increases to health insurance benefits and monthly pension benefits to retirees have all had an impact on ASRS liabilities.

In addition, lower-than-expected mid-term earnings on the Fund, low contribution rates and changing demographic, particularly the positive fact that life expectancy is increasing, have all come together to impact contribution rates.

The ASRS continually reviews overall assets and liabilities and has taken a number of steps that have minimized rate increases. Through new policies and legislative initiatives, the ASRS has been able to hold down contribution rate increases by more than a full percent over the past year. These actions have produced savings valued at more than \$2 billion over the life of the plan. Changes to our Service Purchase program alone will produce about half the savings.

Also under the legislation passed this past session, the ASRS will continue to review contribution rates annually, and will move to an annual adjustment, rather than biannual, beginning with the 2007-08 plan year.

2005-06 Contribution Rates (Effective July 1, 2005)			
	Retirement Pension	Long Term Disability	Total
Employee	6.90%	0.50%	7.40%
Employer	6.90%	0.50%	7.40%
2006-07 Contribution Rates (Effective July 1, 2006)			
	Retirement Pension	Long Term Disability	Total
Employee	8.60%	0.50%	9.10%
Employer	8.60%	0.50%	9.10%

## Members urged to guard personal information

It has come to the attention of the Arizona State Retirement System that several members, particularly teachers, have been receiving unsolicited email notifications and mailings from organizations seeking personal information and purporting to provide free advice and calculations of ASRS benefits.

Please be advised that the ASRS is not affiliated with any such organizations and is not responsible for these private solicitations. Further, the ASRS strongly cautions all members and retirees about providing personal information to persons or organizations that you do not know.

When making decisions about your retirement, particularly about your options for your ASRS pension benefits, the ASRS encourages members to speak with an ASRS Benefit Advisor or attend an ASRS Group Meeting, as well as discussing your plans with a trusted financial planner or financial institution and/or your tax advisor.

Please be aware that the ASRS does not send blanket email notifications to members and does not solicit personal information via email. Any official information from the ASRS is communicated to members through member newsletters or individual correspondence sent through the mail. Also, the ASRS does not make available mailing lists or member information to private organizations.

## ASRS Member Statement recognized as "Best Practice"

Each year, the Arizona State Retirement System produces a personalized Member Statement for each member, showing their account balance and projections for their individual pension benefits.

The four-page Member Statement, which reflects fiscal-year end data, is mailed to all active, inactive and long-term disability members in the late fall.

The ASRS Member Statement was recently recognized as a "Best Practice" example by Cost Effectiveness Measurement Inc., an independent firm that reviewed more than 60 examples from five countries. Judges said the ASRS statement was "well-written and easy to read" and provided valuable information that "I would definitely keep with my other financial papers."

The judges also offered suggestions for improvements, which will be considered as the ASRS begins preparing its 2004-05 Member Statements.

## Coming in November . . . Member Statements

Your 2005 Member Statement is scheduled to be mailed in November. This statement includes your personal data on file, including beneficiary information, salary history, account activity, a summary of service purchase and information on maximizing your ASRS pension benefits.

Also included are benefit estimates for your monthly pension when you retire. You'll see what your pension would be if you retire at the earliest opportunity, or continue working until you reach normal retirement. These are estimates only, based upon your current salary and projected years of service.

Your annual statement provides an opportunity for you to verify information on file at the ASRS. It's important for members to check and verify information such as your beneficiaries, your address and other personal information.

Be sure to watch for your statement, read it carefully and file it with other important personal papers!

## Keep ASRS informed of changes

It is vital that members keep the ASRS informed of changes to your personal information, including name and address. It's also important that we have correct information about your beneficiary.

If you have had a recent change of address, be sure to let us know so it can be updated prior to these important statements being mailed.

You can find a change of address form and a beneficiary form on our website, under the Forms section.



## Retired Member News

### Health Insurance Open Enrollment to take place in October

The Arizona State Retirement System annual Open Enrollment period, during which retirees may elect to enroll in or make changes to their medical and/or dental plans, will take place October 3 through October 28. All changes become effective Jan. 1, 2006.

Open Enrollment applies to any retired member of the Arizona State Retirement System (ASRS), Public Safety Personnel Retirement System (PSPRS), Elected Officials' Retirement Plan (EORP), Corrections Officer Retirement Plan (CORP), University Optional Retirement Plans (UORP), or any member who is receiving a long-term disability (LTD) benefit from the ASRS program. Members or any eligible dependents who have not taken the opportunity to enroll previously in one of the group medical or dental plans also will be able to enroll during this period.

If you are currently enrolled in the ASRS health plan, your current benefit elections will automatically carry forward to 2006 unless you opt to make a change in plan coverage. There will be no change in insurance carriers for 2006, and monthly medical plan premiums will not change. All retirees will receive an Open Enrollment packet in the mail in mid-September. The packet contains useful information about your ASRS medical and dental plans, Medicare, ScriptSave (our prescription drug discount card provider) and the Silver Sneakers Fitness Program. Benefit plan improvements, changes and more details are also described in the brochure.

Informational presentations are scheduled throughout Arizona during October to further explain each portion of your retiree health insurance program. The schedule of meetings is included in the open enrollment packet.

NOTE: If you are making new elections or adding or deleting dependents from your health insurance coverage, your enrollment form must be received by the ASRS or be postmarked no later than midnight, Friday, October 28, 2005.

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#### **Director's Message**

*Continued from Page 1*

In addition to a state Constitutional guarantee, the ASRS has in place a number of procedures to ensure future benefits are appropriately funded. One important practice is applying actuarial principles to calculate future liabilities of the retirement system and then comparing them to the value of the system's assets. The primary result of this practice is the determination of contribution rates.

When the ASRS adjusts contribution rates, as required by state statute, we are really insuring today that we will have the funds on hand to pay your benefit in the future. These collected contributions are invested in a diversified investment portfolio in order to earn a risk-controlled return. The ASRS is investing and holding your contributions today to pay for your benefit in the future.

To further ensure the future payments of benefits, as well as to limit upcoming increases in contribution rates, the ASRS is committed to reviewing its plan structure and making prudent changes, or recommending legislative changes, that will reduce liabilities or the growth of liabilities. We have made a number of changes to date that, had they not been made, would have resulted in significantly higher contribution rates. These changes that have been put into practice will save your retirement system in excess of \$100 million each year. We will continue to review the plan structure to determine if other changes can be made that will further mitigate the increases in contribution rates and enhance the stability of the fund.

It is this balance – actuarially-determined contribution rates, a long-term investment strategy, and a constant review of liabilities and future obligations – that produces a safe and secure retirement plan for you, our valued member.

## Investment News

### ASRS portfolio exceeds expected fiscal year return rate

The ASRS investment portfolio earned a rate of return of 8.5 percent for the fiscal year that ended June 30, 2005, a slight excess return over the actuarial assumed rate of return of 8 percent.

The portfolio, a mix of U.S. and international equities, fixed income investments and real estate holdings totaled just over \$22.4 billion.

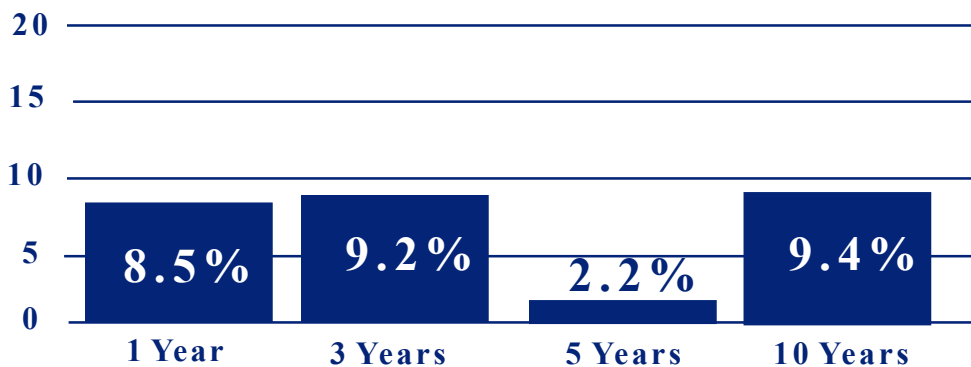
The ASRS employs a broad-based, long-term investment strategy with an asset allocation designed to generate optimal returns while minimizing risk. The asset allocation policy calls for 53 percent of investments to be in U.S. stocks, 26 percent in fixed income, 15 percent in international stocks, and 6 percent in real estate.

Real estate is a relatively new asset class, with investments pending. Currently, the ASRS has investments in two buildings - the 3300 Tower in Phoenix, and an office complex in Tucson. Both buildings house ASRS offices. Over the next several months, the ASRS Investment Division will begin to add funds into the real estate program, which will be a mix of investment types consisting of mainly commercial and industrial properties.

If you'd like to learn more about ASRS investments, including performance of various funds, you can find detailed reports on our website. There, you'll find performance reports for the various asset classes and fund managers, as well as historical performance reports.

### ASRS Investment Rates of Return

This graph reflects the rates of return on the overall ASRS portfolio for the period ending June 30, 2005.



### ASRS Board of Trustees

Dr. Keith Meredith, Chair, Tucson  
Member at Large

Karl Polen Jr., Vice Chair, Phoenix  
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Steven Zeman, Phoenix  
Retirees Representative

### Board of Trustee Meetings

September 16	October 21
November 18	December 16

Board of Trustee meetings begin at 8:30 a.m. at the ASRS Phoenix office, 3300 N. Central Ave., 10th floor Board Room. They are also teleconferenced to the ASRS Tucson office, 7660 E. Broadway Blvd., suite 108.

### Executive Staff

Paul Matson, Director

Anthony Guarino, Deputy Director,  
Chief Operations Officer

Gary Dokes  
Chief Investment Officer

### ASRS Vision

For the benefit of our members, the Arizona State Retirement System will be a leading state benefit plan administrator in the areas of: Core Member Services, Funded Status, Investment Performance, and Operational Effectiveness. This will be accomplished while keeping program benefits and associated costs relatively aligned and maintaining actuarial and fiscal integrity.

## COMMENTS?

ASRS *Financial Horizons* is published periodically and mailed to retired and non-retired members of the Arizona State Retirement System. We welcome letters from our readers and encourage you to address your comments to:

Editor  
Financial Horizons  
P.O. Box 33910  
Phoenix, AZ 85067-3910

The ASRS complies with the *Americans with Disabilities Act of 1990*. This newsletter is available in an alternate format upon request. Contact Tracy Darmer, ADA Coordinator, at (602) 240-5378. Information in the newsletter about retirement laws or policies is only a guide. If a conflict arises between information contained in the newsletter and the law, the law takes precedence.

## CONTACT US!

**ON THE WEB**  
[www.asrs.state.az.us](http://www.asrs.state.az.us)

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Tucson, AZ 85710-3776  
(520) 239-3100

**OUTSIDE METRO PHOENIX  
AND TUCSON**  
Toll Free at 1 (800) 621-3778

**TTY FOR HEARING IMPAIRED**  
(602) 240-5333

## Life Care Planning

All ASRS members – whether actively contributing, retired, or inactive with an account balance still on file – should have a designated beneficiary on file with the ASRS. Secondary beneficiaries may also be designated.

Beneficiaries, whether primary or secondary, can be individuals, a trust or organization.

Having up-to-date beneficiary information ensures that when a member dies, their benefits will be directed according to their wishes.

This is also important for other decisions that members may face. The ASRS strongly encourages all members to consider having a will, a living will and other advanced directives documents filled out so that your wishes are known to those important to you.

For more information, visit the website of the Office of the Arizona Attorney General at [www.azag.gov](http://www.azag.gov) and click on the “Life Care Planning” icon. There, you’ll find general information about Arizona laws as well as sample forms for power of attorney, living will, durable health care power of attorney, durable mental health care power of attorney and pre-hospital medical directives.

Having such documents prepared today could save you and your family difficult decisions in the future.